

SOBEYS

Annual Report
to the
Shareholders
1972



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26th Annual Report

SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
Year Ended May 6, 1972.

Head Office:

Stellarton Nova Scotia

Established 1906

Incorporated 1946

Auditors:

H. R. Doane and Company

New Glasgow, N.S.

Transfer Agent and Registrar:

Montreal Trust Co. Montreal

Toronto — Saint John — Halifax

Bankers:

The Bank of Nova Scotia

Directors

Merritt G. Crawford

William G. Lumsden

Arthur R. Lundrigan

Jas. A. MacMurray

J. Skiffington Murchie

Henry B. Rhude

David F. Sobey

Donald R. Sobey

Frank H. Sobey

Harold M. Sobey

William M. Sobey

Chas. E. Stanfield

Arthur Steele

Officers

Frank H. Sobey

Chairman of the Board

William M. Sobey

President

David F. Sobey

Exec. Vice President

J. Skiffington Murchie

Vice President

Harold M. Sobey

Vice President

Merritt G. Crawford

Secretary — Treasurer

Report of the Directors to the Shareholders

Sales and Earnings

The Company reports record consolidated sales for the year of \$105,000,000 an increase over the previous period of 13%.

Earnings of \$698,000 after tax, or 79c per share, reflect the continued pressure throughout the industry on pricing and generally increased operating expenses. Heavy discounting continues in all areas of the Company's operations — however, it should be noted that larger food markets have reacted well to discounting and many show record earnings. A number of smaller stores, some of which are being phased out, and the continuing policy of writing off new store opening costs have also contributed to depressed earnings.

Financing

Dividends of 40c per share were paid to Common Shareholders during the year plus the preferred dividend of 6¼% to Preference Shareholders. Working Capital was \$2,171,000 and cash flow from operations was \$1,977,000 or \$2.55 per share.

T.R.A. and Disco Stores

Unsatisfactory results in the second and third quarters plus heavy flood losses contributed to lower earnings, however, fourth quarter results were improved, and the Company should continue to report satisfactory earnings.

Lumsden Brothers Limited

Improved results in sales and earnings reflect a continuing strength in the competitive Hamilton, Niagara, Burlington, Ontario area — a large warehouse expansion is nearing completion in Burlington and will enable the Company to expand its volume in this dynamic and important market.

Joy and L-Mart Stores

Joy Stores show improved results in both earnings and sales for the period herein reported. The Company has opened an additional store in Sydney, N. S. and has remodeled and enlarged stores in Sydney and Glace Bay. L-Mart Stores continue to be plagued with poor earning results and will hopefully show improvement during this current year.

Real Estate

Both Avalon Mall in St. John's, Nfld. and Highfield Square in Moncton, N. B. show improved earnings and increased cash flow. The new Aberdeen Mall Shopping Centre has just been opened in New Glasgow, N. S. — is leasing satisfactorily and will contribute beneficially to the Company's earnings. New large real estate and shopping centre developments are being negotiated in the Atlantic Provinces and will be announced when construction starts. Real Estate continues to be an important and stable part of the Company's operational field and is receiving time and attention from management.

Development

New stores were opened in Woodstock, N.B., Sydney, N.S., Gander, Nfld., Ste. Anne des Monts, P.Q., and four additional units are presently under construction — an additional number of units are in the negotiating stage.

Personnel

The Company is strengthening its management through additions to personnel in development, merchandising, operations, and employee training and has completed a general reorganization of divisions.

In Appreciation

The loyalty and support of employees, customers and suppliers is greatly appreciated by the Company.

FRANK H. SOBEY
Chairman of the Board

WILLIAM M. SOBEY
President

Consolidated Statement of Earnings

SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
Year Ended May 6, 1972.

	1972	1971
Sales	\$105,011,280	\$92,813,222
Cost of sales, selling and administrative expenses	<u>102,130,692</u>	<u>89,869,361</u>
	2,880,588	2,943,861
Depreciation	1,067,178	937,992
Interest on long term debt	748,739	805,987
Interest on current debt	<u>211,807</u>	<u>296,242</u>
	2,027,724	2,040,221
Earnings before income taxes and minority interest	852,864	903,640
Income taxes (deferred \$177,979; 1971 \$198,386)	<u>277,043</u>	<u>371,031</u>
	575,821	532,609
Minority interest	<u>42,339</u>	<u>20,947</u>
Earnings from operations	533,482	511,662
Gain on sale of fixed assets and investments	<u>165,409</u>	<u>165,841</u>
Net earnings	<u>\$ 698,891</u>	<u>\$ 677,503</u>
Earnings per share	<u>\$.79</u>	<u>\$.78</u>
Cash flow per share	<u>\$ 2.55</u>	<u>\$ 2.42</u>

Consolidated Statement of Retained Earnings

SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
Year Ended May 6, 1972.

	1972	1971
Balance, beginning of year (Note 9)	\$5,528,483	\$5,237,990
Net earnings	<u>698,891</u>	<u>677,503</u>
	<u>6,227,374</u>	<u>5,915,493</u>
Dividends paid — Class "A" common	208,344	203,135
— Class "B" common	101,600	91,080
— Preference	84,489	88,695
Transfer to capital redemption reserve fund arising from redemption of preference shares	<u>60,300</u>	<u>4,100</u>
	<u>454,733</u>	<u>387,010</u>
Balance, end of year	<u><u>\$5,772,641</u></u>	<u><u>\$5,528,483</u></u>

The accompanying notes form part of this statement.

Consolidated Statement of Source & Application of Funds

SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
Year Ended May 6, 1972.

Source	1972	1971
Operations		
Net income	\$ 698,891	\$ 677,503
Non cash charges		
Depreciation	1,067,178	937,992
Provision for future income taxes	177,979	198,386
Minority interest	33,790	12,397
	<u>1,977,838</u>	<u>1,826,278</u>
Deferred tax of subsidiaries acquired		34,803
Proceeds from long term loans	2,632,055	1,652,109
Subsidiary mortgage and loan assumed		256,930
Minority in subsidiaries acquired		23,810
Sale of common shares		655,200
	<u>4,609,893</u>	<u>4,449,130</u>
 Application		
Net additions to fixed assets	3,542,760	1,857,903
Repayment of long term debt	710,148	581,476
Increase in current portion of long term debt	14,680	24,254
Cost of redeeming preference shares	60,300	4,100
Increase in mortgages and loans — net	16,111	142,665
Excess of cost of investments over book value on acquisition		445,870
Dividends to shareholders	394,433	382,910
	<u>4,738,432</u>	<u>3,439,178</u>
 Increase (decrease) in working capital	(128,539)	1,009,952
Working capital, beginning of year	<u>2,299,736</u>	<u>1,289,784</u>
Working capital, end of year	<u>\$2,171,197</u>	<u>\$2,299,736</u>

Consolidated Balance Sheet

SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
May 6, 1972.

ASSETS	1972	1971
Current		
Cash	\$ 2,259,243	\$ 2,136,801
Marketable securities, at cost (market value \$1,690,268; 1971 \$1,365,505)	1,548,060	1,261,539
Receivables (Note 1)	3,447,883	3,502,700
Inventories, at cost	6,765,447	5,454,583
Prepaid expenses	257,239	211,170
	<u>14,277,872</u>	<u>12,566,793</u>
Mortgages, loans and notes receivable	<u>353,189</u>	<u>337,078</u>
Excess of cost of investments over book value, on acquisitions	<u>1,334,580</u>	<u>1,334,580</u>
Fixed, at cost		
Buildings and parking facilities	15,478,524	13,617,730
Furniture and equipment	7,087,847	6,789,279
Motor vehicles	275,140	246,324
Leasehold improvements	1,015,281	707,889
	<u>23,856,792</u>	<u>21,361,222</u>
Less: Accumulated depreciation	<u>4,971,803</u>	<u>4,579,319</u>
	<u>18,884,989</u>	<u>16,781,903</u>
Land	<u>2,750,773</u>	<u>2,378,277</u>
	<u>21,635,762</u>	<u>19,160,180</u>
	<u><u>\$37,601,403</u></u>	<u><u>\$33,398,631</u></u>

The accompanying notes form part of this statement.

LIABILITIES**Current**

Bank loans — secured	\$ 1,488,887	\$ 1,992,628
Banker's acceptance	1,500,000	1,500,000
Payables and accruals	8,471,223	6,076,015
Long term debt payable within one year	573,578	558,898
Estimated income taxes payable	44,215	90,409
Deferred revenue	28,772	49,107

12,106,675

10,267,057

Long term debt (Note 2)

11,958,225

10,050,998

Deferred income taxes

3,521,812

3,343,833

Minority interest in subsidiaries

315,000

281,210

SHAREHOLDERS' EQUITY**Capital stock****Authorized**

250,000 6¼% cumulative redeemable preference shares of

\$20 par value each, issuable in series

750,000 Class "A" common shares without nominal or par value

500,000 Class "B" common shares without nominal or par value

Issued and outstanding

67,780 preference shares, 1966 series (Note 7)

520,860 Class "A" common shares

254,000 Class "B" common shares

1,355,600

1,415,900

1,739,850

1,739,850

687,200

687,200

3,782,650

3,842,950

Capital redemption reserve fund

144,400

84,100

Retained earnings

5,772,641

5,528,483

9,699,691

9,455,533

\$37,601,403

\$33,398,631

Signed on behalf of the Board

FRANK H. SOBEY

Director

WILLIAM M. SOBEY

Director

Notes to Consolidated Financial Statements

1. Receivables

	1972	1971
Trade	\$1,084,614	\$1,122,044
Extended term	273,153	249,808
Loans	2,090,116	2,130,848
	<u>\$3,447,883</u>	<u>\$3,502,700</u>

2. Long term debt

Company
Sinking fund debentures

Series	Maturity	Authorized	1972	1971
"B" — 5%	Mar. 1/72	\$ 500,000		\$ 175,000
"C" — 4¾%	Sept. 1/75	500,000	\$ 260,000	275,000
"D" — 6%	May 1/77	750,000	412,500	435,000
"E" — 6%	Mar. 1/81	1,000,000	670,000	700,000
"F" — 6%	Apr. 1/84	1,000,000	760,000	790,000
"G" — 5¾%	Apr. 15/85	500,000	395,000	410,000
"H" — 6%	Nov. 1/85	1,000,000	820,000	850,000
"I" — 7¼%	June 15/87	1,000,000	880,000	910,000
"J" — 8½%	Mar. 1/89	1,000,000	910,000	940,000

9¾% loan, maturing in equal annual installments to 1977

	750,000	1,007,500
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Term loan, 9¼%, maturing 1996

	960,000	1,000,000
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Subsidiaries

Bank loan, maturing 1978	2,468,750	2,500,000
Bank loan, maturing 1976	2,114,000	
Bank loan, maturing 1973	400,000	400,000
Note payable pending refinancing	500,000	
Mortgages, maturing 1972 to 1976 with interest rates of 6% to 8%	376,553	362,896
	<u>12,676,803</u>	<u>10,755,396</u>

Current maturities (including bonds held for sinking fund purposes)

	718,578	704,398
	<u>\$11,958,225</u>	<u>\$10,050,998</u>

Long term debt retirement payments for the next five years are:

1973 — \$718,578; 1974 — \$698,500; 1975 — \$748,500; 1976 — \$973,500; 1977 — \$968,500

**SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES**
May 6, 1972.

3. Long term leases

During the year the company paid \$2,500,000 in rentals under lease agreements extending beyond five years from the balance sheet date. The company also received \$1,500,000 rental income as lessor under long term leases.

4. Contingent liabilities

(a) The company has undertaken by separate agreements to provide cash to meet any obligations which Canadian Shopping Centres Limited or Sobey Leased Properties Limited are unable or fail to meet, with respect to their debenture debt, until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be in consideration of the issue to it of an appropriate number of fully paid and non-assessable 6% redeemable, non-voting preference shares of the applicable company. At balance sheet date the aggregate outstanding principal amounts of these debentures were:

Canadian Shopping Centres Ltd.	Series A	\$ 320,000
Canadian Shopping Centres Ltd.	Series B	500,000
Sobey Leased Properties Ltd.	Series A	660,000
Sobey Leased Properties Ltd.	Series B	1,175,000

(b) The company has pledged collateral security in support of bank loans with an outstanding balance of \$750,000 (U.S.) of Foord Construction Limited.

5. Share purchase warrants

The company has reserved a maximum of 20,000 unissued Class A common shares to satisfy the conditions relating to share purchase warrants with the sinking fund debentures, Series J. These share purchase warrants entitle the bearers thereof to purchase 20,000 Class A common shares at the subscription price of \$12 per share up to 4:00 p.m. Atlantic Standard Time on March 1, 1979. If these warrants were exercised earnings per share would be diluted by .01.

6. Short term loans

The company advances cash from time to time on a demand note basis at current bank rates of interest to Sobey Leased Properties Limited and other companies. It also advances funds without interest to these companies for their use in acquiring, constructing and leasing shopping centre properties for and on behalf of the company.

7. Preference shares

The 1966 series preference shares may be called at par at any time. The company is required to provide a \$30,000 fund each year, commencing October 15, 1971, from which shares may be purchased for redemption. This fund reverts to the company if it is not used by September 30 of the following year. During the year 3,015 shares were purchased and cancelled, reducing the issued preference capital to \$1,355,600.

Notes to Consolidated Financial Statements

8. Directors and officers remuneration

Total remuneration to officers and directors for the year was \$249,300.

9. Income tax reassessment

During the year a subsidiary company, Food City Limited, was successful in an income tax appeal resulting in a refund of income taxes in the amount of \$20,559. This refund relates to prior years and the retained earnings figures have been restated to give effect to the refund.

10. Shopping centre operations

The Avalon Mall and Highfield Square shopping centres were sold to a wholly owned subsidiary company, Atlantic Shopping Centres Limited, in 1971 and that company is undertaking refinancing of the centres to replace some medium term debt and add to working capital funds.

11. Principles of consolidation

The accounts of the company and its subsidiaries have been consolidated following purchase accounting principles. The companies consolidated herein are:

Subsidiaries

Wholly Owned

Food City Limited
Atlantic Shopping Centres Limited
T. R. A. Foods Limited
T. R. A. Limited
T. R. A. Liverpool Limited
Riteway Stores Limited
Aberdeen Mall Limited

Controlled

Lumsden Brothers Limited — 80%
Joy Stores Limited — 70%

Auditors' Report

To the Shareholders

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 6, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary company, Lumsden Brothers Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at May 6, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

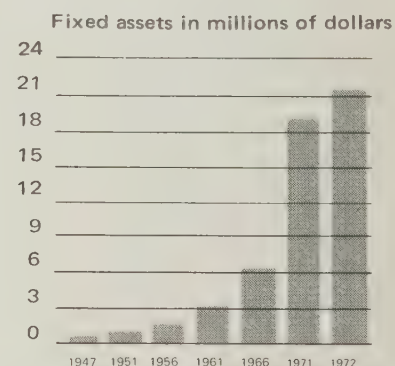
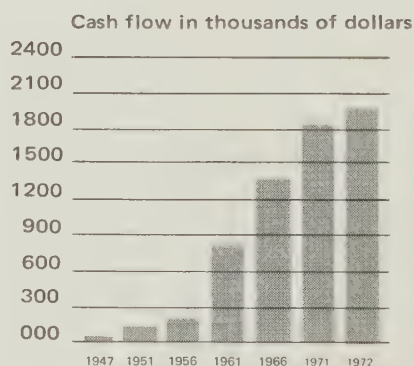
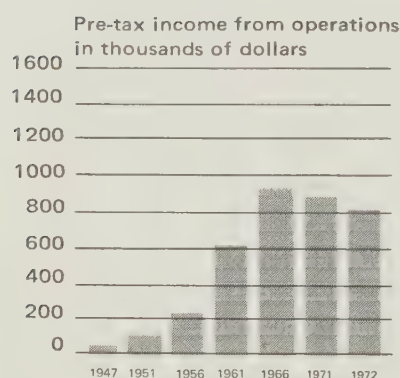
H. R. Doane and Company
Chartered Accountants

New Glasgow, Nova Scotia
June 22, 1972

Review of Financial Growth Since Incorporation

SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES

	1972	1971	1966	1961	1956	1951	1947
Operations							
Income from operations	\$ 810,525	\$ 882,693	\$ 930,809	\$ 602,353	\$ 236,012	\$102,394	\$ 22,538
Depreciation	1,067,178	937,992	527,106	211,095	99,472	37,846	10,186
Interest on long term debt	748,739	805,987	248,133	101,181	60,963	7,808	3,134
Cash flow	1,977,838	1,826,278	1,336,179	882,119	250,178	96,617	29,455
Income taxes	277,043	371,031	431,455	279,591	108,504	43,959	8,988
Gain on sale of fixed assets and investments	165,409	165,841	214,961	6,652	6,639	335	397
Net income after provision for income taxes	698,891	677,503	664,315	329,415	134,146	58,771	18,668
Shareholders information							
Cash flow per share	2.55	2.42	1.90	1.29	.50	.19	.06
Equity per share	10.77	10.66	6.76	4.01	1.49	.51	.19
Preferred share dividend	6.25%	6.25%	—	—	5.00%	5.00%	—
Common share earnings	.79	.78	.97	.48	.26	.12	.04
Common share dividends	.40	.39	.23	.20	—	—	—
Average number of common shares outstanding	774,860	753,860	346,715	340,000	10,000	10,000	10,000
Balance sheet							
Working capital	2,171,197	2,299,736	1,747,417	1,159,523	339,599	151,011	122,886
Fixed assets	21,635,762	19,160,180	7,870,999	3,621,904	1,575,620	254,399	109,912
Long term debt	11,958,225	10,050,998	4,416,000	2,507,008	1,227,875	158,881	150,000
Net tangible assets per \$1,000 debenture	3,487	3,300	2,179	2,154	1,591	3,211	1,596



AR21



SOBEYS

**SOBEYS STORES
LIMITED**

Interim
Report

SOBEYS

**SIX MONTHS
ENDED
NOVEMBER 4
1972**

SOBEYS STORES LIMITED

INTERIM STATEMENT

Six months ended November 4, 1972

TO THE SHAREHOLDERS

Sales for the six (6) months ending November 4th were 15.2% above the same period last year at \$59,311,000 and earnings after provisions for the 6¼% "preferred" dividend increased by 22% to \$212,956, or 27c a share against last years 23c.

FINANCIAL

To strengthen the company's working capital position, a long term mortgage was arranged for Avalon Mall, St. John's, Nfld., raising working capital to \$3,826,841 — cash flow stands at \$857,359 or \$1.11 per share.

MANAGEMENT

The company has strengthened its management teams in retail merchandising, store operations and real estate development.

The new distribution centre in Stellarton, N.S. is well under construction and is scheduled to open in early spring, 1973.

SUBSIDIARY COMPANIES

Subsidiary companies continue to expand in the wholesale and retail field. Lumsden Brothers Limited in Burlington, Ontario have just opened their newly enlarged distribution plant in that city and have purchased the inventory and Foodland-Clover Farm franchise of Jackson's Wholesale Grocers Limited in Simcoe, Ontario.

REAL ESTATE

Real estate, its development and operation continues to be an important part of the companies long range plans. New shopping centres and other developments are being planned for openings in 1973 and 1974.

During this period, the company has opened new stores in New Glasgow, N.S., Chatham, N.B., and Rothesay, N.B., and has closed four (4) smaller units. Modernizations in a number of major units have also been carried out.

We look forward to improvement and continued growth in the balance of this fiscal year.

WILLIAM M. SOBEY
President

Stellarton, N.S.
December 12, 1972

SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)
SIX MONTHS ENDED NOVEMBER 4, 1972

	1972	1971
Income		
Sales	\$59,311,422	\$51,482,250
Rentals	1,018,855	754,801
	60,330,277	52,237,051
Cost of sales, selling and administrative expenses	58,783,422	50,858,861
	1,546,855	1,378,190
Depreciation	569,246	536,585
Interest on long term debt	450,079	383,179
Interest on current debt	128,480	111,973
	1,147,805	1,031,737
Earnings before income taxes and minority interest	399,050	346,453
Income taxes	219,436	201,087
	179,614	145,366
Minority interest	18,159	23,726
Earnings from operations	161,455	121,640
Investment income	93,863	96,843
Net earnings	255,318	218,483
Preferred share dividend	42,362	44,247
Net earnings after providing for preferred share dividend	\$ 212,956	\$ 174,236
Earnings per common share	\$.27	\$.23
Cash flow	\$ 857,359	\$ 863,026
Cash flow per share	\$ 1.11	\$ 1.11

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(Unaudited)

Source	1972	1971
Operations		
Net income	\$ 255,318	\$ 218,483
Non cash charges		
Depreciation	569,246	536,585
Provision for deferred income taxes	23,186	83,794
Minority interest	9,609	24,164
	857,359	863,026
Long term debt borrowings	5,515,427	
Reduction (increase) in mortgages and loans receivable	98,116	(88,097)
Adjustment of prior years' income taxes		22,572
	6,470,902	797,501
Application		
Net purchases of fixed assets	4,371,154	647,975
Dividends paid	197,335	199,219
Repayment of long term debt	246,769	665,385
	4,815,258	1,512,579
Increase (decrease) in working capital	1,655,644	(715,078)
Working capital, beginning of period	2,171,197	2,279,177
Working capital, end of period	\$3,826,841	\$1,564,099

DIRECTORS

MERRITT G. CRAWFORD
WILLIAM G. LUMSDEN
ARTHUR R. LUNDRIGAN
J. SKIFFINGTON MURCHIE
HENRY B. RHUDE
DAVID F. SOBEY
DONALD R. SOBEY
FRANK H. SOBEY
HAROLD M. SOBEY
WILLIAM M. SOBEY
CHAS. E. STANFIELD
ARTHUR STEELE

OFFICERS

FRANK H. SOBEY
Chairman of the Board
WILLIAM M. SOBEY
President
DAVID F. SOBEY
Exec. Vice President
J. SKIFFINGTON MURCHIE
Vice President
HAROLD M. SOBEY
Vice President
MERRITT G. CRAWFORD
Secretary—Treasurer